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Between home and host country: Multinationals and employment relations in Europe

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Introduction

Foreign-owned firms employ a significant proportion of the European workforce. This varies considerably between countries but in manufacturing, where the figures are highest, it generally represents more than 10 per cent of employment (see Table 1). Furthermore, it increased strongly between 1985 and 1995. Foreign-owned transplants are likely to provide a challenge for national systems of employment relations (ER) in Europe. They represent the most visible manifestation of the influence of global pressures on national economies and societies. However there is only limited empirical evidence to support such an assessment.

Existing research has largely concentrated on the behaviour of US and Japanese multinational companies (MNCs). This suggests that US firms in Europe have transferred practices from their home country and thereby challenged national systems of collective representation and bargaining and acted as HR innovators in areas such as pay and work organisation (Almond, Edwards and Muller, 2001; Ferner, forthcoming). Innovations by Japanese firms have mainly been in the area of work organisation (Elger and Smith, 1998; Morris, Wilkinson and Munday 2000). The more limited research about ER practices of firms from other countries suggests that they also transfer home country practices, but in a way that is less challenging to their

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Table 1: Significance of manufacturing employment in foreign affiliates in selected European economies

(Number of employees in foreign affiliates as a percentage of total number of employees)

	1985	1996
Finland	5.3 (1992)	12.5 (1997)
France	16.8 (1987)	16.9 (1992)
Germany	6.6	13.0
Ireland	40.9	45.6 (1990)
Italy	16.0	17.4 (1993)
Netherlands	15.2	19.1 (1994)
Norway	7.4	9.0 (1994)
Sweden	7.7	18.0
United Kingdom	13.7	18.2 (1992)

Source: UNCTAD (1999). World Investment Report 1999. United Nations: New York.

host countries (Dickmann, 1999; Ferner and Varul, 2000; Ferner, forthcoming). Furthermore, the available literature also indicates that the challenge posed by foreign owned firms differs between host countries, for example between institutionally weak systems such as the British and institutionally strong systems such as that in Germany (Muller, 1998).

The following section presents a more thorough analysis of the home and host country effect. On the basis of this conceptual framework the impact of foreign firms on ER in selected European countries in the year 2000 will then be examined. Finally we turn to the supranational EU level.

Home country and host country effect

The home country effect

Existing evidence suggests that multinational firms transfer managerial practices from their country of origin to their country of operation (Child *et al.*, 2000). This home country effect has been attributed to the embeddedness of MNCs in the business system of their country of origin (Ferner, 1997). The international management literature suggests that the home country effect has become stronger in recent years. Firms operating in more than one country are under growing pressure to integrate their international business. MNCs, it is argued, will abandon multidomestic approaches, which combine a low international integration of the business and a high responsiveness to local conditions. Instead they will increasingly integrate their business across borders (Harzing, 2000) through processes of standardisation achieved either on the basis of home practices or on some form of global best practice prescriptions. International management structures, financial control mechanisms, expatriates in key positions and written guidelines are among the options for firms seeking to achieve international integration (Ferner, 2000; Harzing, 1999). It can be expected that the home country effect is strongest in firms that originate in a dominant economy, namely the USA today or Japan a decade ago (Edwards and Ferner, 2000).

The host country effect

Whereas the home country effect suggests that the management and employment relations of foreign affiliates are modelled on those of their country-of-origin, positing a host country effect assumes that they are also influenced by their country-of-operation (Ferner 1997, Rosenzweig and Nohria, 1994). The extent to which the host coun-

try has an effect depends on two factors. Firstly, the institutional distance between country-of-operation and country-of-origin is important. The more institutionally different the two are, the easier it is to identify a host country effect. Secondly, the strength of national institutional regulation is important. MNCs are under more pressure to comply in more tightly regulated business systems than in weaker institutional environments. Nevertheless, research by Muller (1998), Royle (1998) Tempel (2001) and Wever (1995) on American and British MNCs in Germany shows that even in strong institutional environments there is some room for manoeuvre.

Whether a transfer of practices between the parent company and the foreign subsidiaries occurs does not entirely depend on the host/home country effect, but also on the strategic role of the subsidiary (Gupta and Govindarajan, 1991), the method of affiliate establishment (Taylor *et al.*, 1996) and power relations (Ferner, 2000). Particularly important for the argument pursued here is the type of practice to be diffused. Some, such as those in the area of ER, are more difficult to transfer, as in many countries these are relatively tightly regulated. Nevertheless, ER is also an area where corporate executives might have strong views about certain principles such as management's 'right to manage', which could provide an incentive for standardisation.

The importance of MNC in selected European countries

To analyse the impact of MNCs on ER in Europe we concentrate on five countries, but also examine important developments in the rest of Europe. France, Germany, the UK, Ireland and Spain are interesting home countries to study the impact of MNCs. The first two can be seen as representative of the two main types of highly regulated economies, the first largely through direct governmental action, the second through the entrenched nature of its industrial relations (IR) system. The remaining three have all competed for foreign direct investment on the basis of relatively low labour costs. While the Spanish system remains relatively strongly regulated, at least in the area of the dismissal of permanent employees, both the UK and Ireland compete on the basis of a lightly regulated economy, and strong fiscal incentives.

Arguably, MNCs exert a much greater influence on the Irish economy than is the case in any other European nation. *Ireland* is a comparatively new nation state, achieving partial independence from Britain in 1921 and only becoming a Republic in 1949. Most of the post-independence period up to the late 1950s was characterised by poor economic performance and limited industrial development. Ireland remained a rural, agriculture-based economy. However, the late 1950s witnessed a sea change in Irish industrial policy, moving from a protectionist stance to the creation of an open economy. Government policy now sought actively to encourage foreign direct investment, mainly via the provision of cash grants and tax concessions. The attraction of multinational investment has remained a consistent plank of public policy ever since. Today, employment in MNCs accounts for roughly one third of the industrial workforce, for 55 per cent of manufactured output and some 70 per cent of industrial exports (Tansey, 1998), with the main sectors being electronics, pharmaceuticals/health-care, software and 'teleservices'. US owned firms represent by far the most significant grouping, but the UK and Germany are also important sources of foreign direct investment.

Over the last decades, UK governments have also increasingly prided themselves on the attractiveness of *Britain* as a destination for foreign direct investment. They have pointed to a combination of relatively low labour costs, permissive labour legislation, a greatly weakened trade union movement, and access to the EU market. This made the country an increasingly significant recipient of foreign investment, particularly from the US. In spite of some changes to IR legislation, such as moves towards a juridified union recognition process, the ending of the opt-out from the Social Chapter, and the introduction of European Works Councils legislation (EIRR, 2000a:12), this policy orientation has not substantially altered under the current Labour Government (Clark, 2000: 164–166).

As Table 1 highlights, the proportion of employment in foreign-owned firms in

Germany relative to domestic firms is low compared to its European neighbours. The German business system 'remains dominated by domestic firms' (Lane, 1995: 95), although foreign direct investment in Germany has increased four-fold in the last three years (Deutsche Bundesbank, 2000). The comparatively low activity of foreign-owned companies in Germany has been attributed to several factors, including high costs related to labour, energy and environmental protection, labour market inflexibility and taxation (Deutsche Bundesbank, 1997). The comparative underdevelopment of the German stock market (Vitols *et al.*, 1997) and the concentration of ownership of German firms (Windolf and Beyer, 1995) have been seen as barriers to inward investment through acquisition in Germany. The German IR system has always been regarded as a core element of the German model of 'Rheinish capitalism' (Albert, 1991). Its highly regulated nature and strong institutions have been seen as major factors limiting Germany's ability to attract foreign capital and as enforcing a template of employment practices onto companies, whatever their country of origin may be.

The industrial relations role of foreign-owned firms attracts somewhat less attention in *France* than elsewhere. This may in part be because foreign MNCs are less present in emblematic sectors of the economy such as the auto industry than in other European countries. Another factor, however, is the nature of the French IR system. On the one hand, it can be argued that, unlike in Germany and the UK, there is little tradition of collective workplace regulation for foreign companies to break away from (Almond, 1999). On the other, most foreign companies appear to be fairly pragmatic in following the legal requirement to negotiate wages and working time with the five nationally representative trade unions. In the sphere of collective labour relations, at least, this tends to reduce any gaps which might otherwise exist between foreign transplants and large domestic firms. While there is some evidence of American firms which strive to be non-union in their home country discriminating against trade union activists, it should be pointed out that this phenomenon is hardly absent from large French-owned firms (Humanité, 2000).

The *Spanish* case is an excellent example of a country and a business system that, despite undergoing radical modernisation in a very short span of time and thereby showing a high degree of adaptability, is still imprinted by its past institutional legacy (Crouch, 1993). Its IR system has achieved its current configuration over a period of slightly more than 25 years. With the arrival of democracy in 1975 a 'new' IR system based on modern and democratic work ethics was born (Hamann, 1998) which is highly legalistic in nature (Martínez, 1998). Labour regulations affect practically all spheres of employment and labour activities, and compensation for dismissals and redundancies is on average the highest in Europe. The Spanish business system is characterised by the preponderance of small and medium sized firms (Costa, 1995), yet since the 1970s it has been one of the leading recipients of foreign direct investment in the world. Foreign capital has been one of the most important driving forces for economic development, MNCs dominate major sectors of production, and the proportion of industrial output in the hands of foreign enterprises is exceptionally high, at 42 per cent. One consequence is that while a Spanish 'national' managerial style may still be evident in the small firm sector, the influence of foreign styles of management has been predominant in larger firms. Recent research on MNCs operating in Spain (Dickmann, 1999; Ferner *et al.*, 2001; Quintanilla, 1998) has shown that one of the key features of the Spanish business system is its *malleability*. Despite the institutional constraints of the Spanish IR and labour market systems, management styles and traditions have not gelled into a highly defined business model as in Germany or France.

Standardisation and national employment relations systems

While the pros and cons of Europe's public policy focus on attracting foreign direct investment are not treated in any depth in this analysis, it is widely held that benefits include the contribution to employment creation, economic growth, modernisation

of the industrial base and increased industrial productivity (see, for example, Driffield and Munday, 2000; Dunning, 1993; O'Hearn, 1995; Tansey, 1998). Turning to their impact on IR and HRM, we find a broad consensus that MNCs, particularly from the US and Japan, have been an important source of innovation in areas such as work organisation, performance related pay and the role of the specialist HR function (Ferner, forthcoming; Gunnigle, 1998; Gunnigle, Turner and D'Art, 1998; Muller, 1998). Several examples suggest that MNCs have continued to play an innovative role in 2000.

In February 2001 *Toyota (J)* opened its first factory in mainland Europe. Toyota was apparently considerably more enthusiastic than many of its French counterparts in complying with the second Aubry Law, which reduced the legal working week from 39 to 35 hours, without any reduction in pay levels. The policy of trade union co-option adopted elsewhere in the firm's operations has been extended to France through a system by which trade union activities are to be financed by the company. Although a small number of large French-owned firms have adopted similar systems in order to assure themselves of having stable interlocutors, this adaptation of Toyota's global IR policy to the French environment remains innovative. While the Japanese car constructor is pragmatic enough not to offer jobs for life, its new plant does differ from those of domestic manufacturers in only recruiting workers on permanent contracts, through its traditional exhaustive recruitment process. The entry of Toyota onto mainland Europe poses interesting questions as to whether elements of Toyotism will be more fully adopted among domestic firms. In an interview the vice-president of Toyota France reflected that, while European companies have copied the tools of the Toyota production system, the integration of all its elements remains somewhat partial (Libération, 2001c).

A second example of innovation can be found in the Spanish subsidiary of Volkswagen (D). After complex negotiations with its three main trade unions, management achieved a four year settlement period, wage moderation and a further flexibilisation of working hours in return for reduced working time and a conversion of temporary contracts into permanent ones (EIRO: ES0006292N). The working hours model in particular was closely modelled on similar agreements in VW's German factories and thus offers strong evidence of a home country effect.

Whereas the above type of innovations are in line with expectations about Japanese or German MNCs, the following case goes against expectations about US-owned MNCs. As will be discussed later in more detail, US MNCs are widely known for their anti-union attitudes. In this respect a collective agreement reached by the white-goods manufacturer Whirlpool (US) is remarkable, and arguably a good illustration of the diversity of IR in the US (Katz and Darbishire, 1999: chapter 2). In July 2000, Whirlpool and its Italian trade unions reached a company agreement, which builds on the participatory ER model already in place since 1998. At that time a number of employee-management committees were set up. In the most recent agreement a bipartite training committee was added and more importantly management offered to share with its workforce an annual statement of company strategy and its operational achievement. Moreover, employees and trade unions will be given opportunities to influence the content of this document (EIRR 2000f).

Challenges to national IR arrangements

Innovations such as those outlined above are often either a result of a MNC transferring elements of policy from its home to its host country or adopting some sort of global 'best practice'. In other words, instead of fully adapting to local practices, a MNC standardises at least some of its ER policies across countries. In the above cases this standardisation seems to have been viewed positively in the host countries.

There are also cases where international integration clashes with aspects of national business systems. For example, *IBM's (US)* attempt to introduce a world-wide bonus system, which reduces guaranteed monthly pay and increases flexible pay, was partially blocked in Sweden by unions (EIRR, 2000b). Considering the relatively low

popularity of bonuses as a means for performance related pay in Sweden (Muller, 2000), the potential problems of such a standardisation must have been obvious for local management from the start.

Despite this particular case, the most prominent element of standardisation challenging national IR arrangements is not working hours and pay, but union recognition and avoidance. Since the late 1960s, US MNCs in particular have been associated with non-union strategies and it has been widely suggested that they transfer a US type non-union model to their European host countries (Almond, Edwards and Muller, 2001; Edwards and Ferner, 2000; Muller, 1999; Royle, 2001). Among the five countries studied in more depth, this challenge appears to be most profound in Ireland. Traditionally Ireland has a pluralist ER model characterised by union recognition, reasonably high union density, collective bargaining over the terms and conditions of employment and utilisation of the state's conciliation and arbitration agencies on issues of IR conflict. Since the late 1980s there is extensive evidence of the progressive growth of union avoidance strategies, particularly among US MNCs, a significant proportion of which are non-union (McGovern, 1989; Gunnigle, 1995; Gunnigle, Morley and Turner, 1997). Looking at the longitudinal pattern in regard to union recognition among MNCs, union avoidance strategies began to take hold around the early 1980s, became significantly more commonplace as the decade progressed, and are now characteristic of the majority of greenfield site firms in the manufacturing and internationally traded services sectors (see Gunnigle, 1995; Gunnigle, MacCurtain and Morley, 2001). While the early non-union firms were predominantly US owned and located in 'high tech' industries (mostly electronics, software and internationally traded services), evidence from the early 1990s points to the broader diffusion of union avoidance to embrace a number of other foreign owned firms. As the following examples show non-union tendencies can nowadays even be observed in German firms operating in Ireland. However, considering the pragmatic adaptation of German MNCs to their host countries, particularly in regard to IR (Dickmann, 1999; Ferner *et al.* 2001), this is less surprising giving the changing Irish context described above.

In 2000, union recognition disputes at the Irish subsidiaries of the German-owned MNCs *Liebherr (D)* and *Aldi (D)* and at American-owned *Raychem (US)* have gained particular prominence. Labelled a 'bitter' union recognition strike, the Aldi case centred around a union recognition claim by the trade union *Mandate* (Industrial Relations News, 2000). This dispute lasted for over three months and involved pickets by a small number of Aldi employees who had joined *Mandate*. It ended in August as a result of a voluntary severance deal with a majority of the workers involved. Under the agreement workers who had been picketing the company's Dublin shop and who had earlier been dismissed were re-instated and then offered a voluntary severance package which they accepted. The settlement terms included a mechanism to resolve any further such disputes which incorporates a new 'code of practice on voluntary dispute resolution' and pending legislation dealing with union recognition.

The case of Aldi is interesting, as in the past industrial disputes were mostly associated with manufacturing firms. This and three other disputes suggest that MNCs in Europe's low pay service sector might be increasingly vulnerable to industrial action. The turn of the year 2000/2001 saw previously unheard of industrial action in both *Pizza Hut (US)* and *McDonalds (US)* in France, over both pay levels and what were seen as excessive requirements for flexibility of working time. Interestingly, given weak collective organisation in such firms (Royle, 2000), the traditional trade union movement was aided here both by radical anti-unemployment and anti-precarious employment organisations, which first rose to prominence in the winter of 1995 (Dufour and Hege, 1997), and anti-globalisation organisations, as well as students' unions (Liberation, 2001a + b). Similarly in Italy, *McDonalds (US)* encountered its first industrial unrest. There were strikes in two branches in Florence and Rome. Public attention was high and even the government intervened. (EIRO: IT001116N)

Pragmatic adaptation?

So far we have concentrated on those cases where MNCs have received public attention because their practices differ from host country norms. Nevertheless, there are a large number of American and European MNCs whose ER practices are built upon a pragmatic adaptation to local conditions (Quintanilla, 1998; Dickmann, 1999; Ferner and Varul, 2000). Not surprisingly, the reliance of this paper on material available in the public domain means that these cases are under-represented in this article. An exception are the following examples from Spain, where MNCs adapted their pay policies to the host country's highly atomised collective bargaining structures, even if only after substantial pressures to do so.

During the 1990s, when there was high unemployment in Spain, trade unions and employee representatives granted significant flexibility and pay concessions to companies in return for employment security and/or increased employment. The more robust Spanish economy at the beginning of the new century has seen more and more demands by trade unions to renegotiate these concessions. In 2000 several cases were reported of MNCs who opposed such demands and as a result faced severe labour unrest. Among the most bitter disputes were strikes at *Ford (US)*, *Moulinex (F)* and *SEA Tudor*, which is owned by *Exide (US)*. In the latter two cases wage inequality was at the heart of the confrontation. Employees in one of Moulinex plants took industrial action to close a wage gap of €4,800 per year with workers in a different plant of the same company (EIRO: ES0009210F). At SEA Tudor employees aimed to get rid of a dual pay scale agreed in 1996, which awards 30 per cent less pay to workers recruited after 1996 (EIRO: ES0002278F).

The above cases also highlight the need to manage ER in Spain 'politically' and to negotiate a path through institutional employment constraints. However, in the above cases MNCs only started to learn this lesson after having suffered industrial action and severe labour unrest. By contrast, unions are often fully aware of the guarantees offered by the host country arrangements and use them to force MNCs to appreciate and value the virtues of pragmatic adaptation. An interesting example of how it should not be done is *TWA (US)*. By unilateral decision, motivated by its difficult world-wide financial situation, the parent company decided to close its small Spanish subsidiary without any kind of prior negotiation or consultation with its unions. As could have been expected, rather than paying the legal minimum, TWA was forced to pay nearly double that amount as a result both of union street demonstrations and overall public opinion being strongly against the firm.

Job losses and social dumping

A further downside associated with MNCs is that they are perceived to be 'footloose' in terms of their ability to relocate abroad and associated job losses. Relocation can create hostility among employees and other stakeholders, particularly if the decisions went against earlier promises, did not involve employees and/or affected profitable operations. This is illustrated by the following examples.

Bombardier (CAN) closed the ManageBNBombardier plant with 400 employees in Belgium. This caused a huge public outcry as the plant was apparently profitable and had previously secured concessions from the government and employees in exchange for job security pledges. (EIRO: BE0004309F). *Goodyear-Dunlop (US)* announced the closure of its Latina plant (549 employees) in Italy in January 2000. As there was no prior information and consultation with trade unions before this decision, it not only caused public protest in Italy, but was also condemned by the European parliament. After five months of industrial action, the company agreed to a generous redundancy package, offered alternative employment and the use of the factory by other producers (EIRO: IT0005153N, IT0001140N). Both cases have been compared to the 1997 closure of *Renault's (F)* Vilvoorde plant in Belgium, which also provoked public outcry and EU intervention (EIRO: EU9703108F).

Innovative industrial action at Foxboro Eckardt, a German subsidiary of the engin-

eering and electronics company *Invensys (UK)*, was successful in watering down workforce reduction plans. The former family-owned company was taken over by Siebe plc (UK) in 1993, which became part of Invensys in 1999. Since 1993, the German workforce in Stuttgart has been reduced from 1,240 to 190. The works council accused management of bleeding the company for short-term shareholder interests and for contravening a company agreement safeguarding production sites. Foxboro Eckardt employees and their representatives used methods, which attracted considerable attention in the German press, including demonstrating at the Stuttgart stock exchange, sending protest emails which blocked internet access at company headquarters for several hours, and setting up a website providing information on the industrial action. An alternative production plan developed by the works council and the IMU Economic Institute aimed at safeguarding the Stuttgart site in the long term was eventually accepted by company management in March 2000 (EIRO: DE0004242N).

In the UK, *General Motors (US)* announced to close its Vauxhall plant at Luton in December 2000. Many workers first heard of the impending redundancies through local radio. This was exacerbated by the fact that the redundancies were announced only six months after it was apparently confirmed that a new model would be built at the plant concerned (EIRO:UK0012104F), leading the general secretary of the TGWU trade union to talk of a 'cynical disregard' for promises made to workers.

Closures often affect plants which have been taken over by foreign firms a few years previously and thus point to adverse effects of mergers on employment. For example, the newly merged *ABB (S, CH)/Alstom (F, UK)* announced that company restructuring would lead to the loss of 10,000 jobs world-wide. For Germany alone this would mean the loss of 1,361 jobs and the closure of plants in Dresden and Dortmund (FAZ, 2000a). The restructuring announcement led to visible protests at the EU level. The European Metalworking Federation staged a European day of action in April 2000 to protest against the proposed job losses (EIRR, 2000c). The European Parliament passed a resolution in February 2000 condemning the EU Commission for approving the ABB/Alstom merger without considering fully the social and employment consequences (EIRO: EU0003233N).

Considering the potential impact of mergers and strategic alliances on ER, it is not surprising that there are cases where employees take industrial action in anticipation of negative consequences for the workforce or even try to block mergers. Industrial action at the Bochum plant of Opel, a subsidiary of *General Motors (US)* in June 2000 led to the loss in production of 10,000 cars and brought all Opel plants in Europe to a standstill (FAZ, 2000c+d). The stoppages followed the announcement of a strategic alliance between General Motors and *Fiat (I)* to set up new joint business units in the areas of procurement and motor components. There were fears amongst worker representatives that this could lead to job losses, as well as a deterioration of employment rights and conditions for the estimated 4,500 Opel employees who would be transferred to the new businesses. There were also fears that Opel would gradually be split up, leading to a loss of work agreements, pay structures and social standards (FAZ, 2000b). Eventually, an agreement between the management of Opel and the company's works council was reached. This guarantees that there will be no compulsory redundancies relating to the restructuring, that the transferred employees will receive the same working conditions as Opel employees and that the new businesses will be served by the existing Opel works councils (EIRR 2000e).

In terms of attempts by employees or their representatives to block mergers, arguably the most prominent example in 2000 was the take-over battle between *Vodafone-Airtouch (GB/US)* and *Mannesmann (D)* which came to an end in February 2000 when the latter agreed to a friendly take-over. Vodafone's original take-over bid was rejected both by Mannesmann management and employee representatives. It also evoked strong criticism from German politicians. The Mannesmann executive board saw the merger as being strategically unreasonable due to the very different structures and economic growth prospects of the two companies. Representatives of IG Metall and the Mannesmann group works council rejected the take-over bid because

of fears that the overall Mannesmann corporation would be dismantled, threatening thousands of jobs and undermining the co-determination culture of the company. In response to the reactions of Mannesmann employees and the German public, Vodafone launched a campaign in the German newspapers in an attempt to reassure them that the merger of the two companies would lead to no additional job losses and that the rights of employees, trade unions and works councillors would be fully recognised. This stands in contrast to Vodafone's strategy in Britain, where it does not recognise trade unions to represent its staff. Once it became clear that an improved offer made by Vodafone to Mannesmann shareholders might be successful, Mannesmann management changed its strategy and agreed to negotiate a friendly take-over, which included the term that Düsseldorf would be retained as one of two dual European headquarters and this was accepted by employee representatives (EIRO: DE0003248N).

Following the social dumping thesis one would suspect that MNCs generally relocate from highly regulated to less regulated countries, e.g. from Germany to the UK. A number of examples, however, suggest that this is not necessarily the case. In 2000 *Fujitsu/Siemens (J,D)* closed a computer plant in Finland and transferred production to Germany. This plant was profitable and there were no negotiations with employees, which is not necessary for firms with a non-Finnish headquarter. There was a suspicion that German managers closed a plant in a country where it is easy to do so in order to avoid confrontation with strong German works councils (EIRO: FI0002136F). The UK provided several examples for such 'easy-come, easy-go' practices in 2000. Among these are the divestment of the car manufacturer Rover by *BMW (D)* and *Ford's (US)* announcement to close its Dagenham plant with a subsequent transfer of production to Germany. There is a growing suspicion that while labour flexibility, and more specifically the ease of dismissal, may make the UK an attractive destination for new foreign direct investment, it also pre-disposes foreign multinationals which come under shareholder pressure to scale down investment in the EU, to begin this process in the UK, in preference to countries where the cost of dismissal of workers is higher.

The influence of MNCs on political decision making

Considering the ability of MNCs to locate in and relocate out of a certain country, it is not surprising that this is used to influence political decision making. For example, the car producers *Ford (US)*, *General Motors (US)*, *Nissan (J, F)* and *Toyota (J)* have all pressed the UK government to work towards membership of the single currency. In addition, some of them have actively reduced their dependence on sterling. For example, recently announced new investment at the Nissan plant in Sunderland was gained by local management turning to euro-zone component suppliers, while Toyota is not alone among the larger MNCs in insisting upon transactions in euros among its suppliers. In addition to single company initiatives, the combination of MNCs on a sectoral or ownership basis for purposes associated with lobbying and influencing public policy can be equally important. In Ireland the 1997 debate on the EU Working Hours Directive saw the *US Chamber of Commerce* emerge as an important representative body on behalf of US direct investors. More recently, the influence of the US MNC lobby in Ireland has been seen to some effect in the debate on trade union recognition. The opposition of Ireland's main Development Agency (the Industrial Development Agency) to any form of mandatory union recognition and general government reluctance reflects the impact of the MNC factor on Irish public policy. This is testament to the influence of the MNC sector in general, and the US Chamber of Commerce in particular, as a new and important actor in Irish IR.

Issues at EU level

So far the analysis has concentrated on the national level. Now we turn to the supranational level. Over the last decades European integration has at least partly led to

the development of a unified economic, social and political environment within the European Union. Hence, one could argue that the EU as a whole could increasingly represent the host country for MNCs rather than individual Member States (see for example Marginson, 2000). This raises questions both as to the extent of the impact of the supra-national entity on MNCs and how the home country influences the regional level.

In the area of ER, it is arguably the European Works Council (EWC) Directive, adopted in September 1994, that has had the biggest impact on MNCs operating in Europe. It requires all companies with a minimum of 1,000 employees and at least 150 employees in each of two European Economic Area (EEA) states to establish a EWC. Across the 18 member states of the EEA, about 1,400 MNCs are covered by the Directive. Of these, 450 voluntarily concluded an EWC agreement before the legislation came into force in September 1996. By 2000 a further 150 organisations had established EWCs (for a full list of companies see www.etuc.org/etui/databases/ewclist.pdf). This means that 800 firms, which is more than half of the companies covered by the legislation, have still to set up a EWC (EIRR, 2000d). Furthermore, there is diversity in the agreements of those MNCs which have already set up EWCs. Differences relate for example to whether an explicit trade union role is foreseen, whether employee representatives have access to expert assistance and whether the EWC is a joint management/employee or an employee-side-only body. In the absence of more detailed data one can only speculate that the home country has an effect on whether and/or how the legislation is implemented by a MNC. Marginson *et al.*'s (1998) study of 386 voluntary agreements suggests that the home-country has only limited influence. Nevertheless, it shows that agreements in Anglo-Irish and non-European MNCs are more likely to emphasise managerial prerogative than Continental European ones. A further issue, to which we now turn, is whether the EWC or other supranational bodies encourage or force companies to integrate ER across Europe.

A 1999/2000 study conducted in six European countries and three industries (Sisson and Marginson, 2000) suggests that EWCs have not yet become a major IR 'player'. However, the research revealed differences between the relatively homogenised and integrated automotive industry and the more heterogeneous and less integrated finance and road haulage sectors. In the former case, management organises production and marketing on a European scale. It actively uses best practice and benchmarking comparisons to set up competition between plants in different countries, but also makes terms and conditions in other countries transparent for employee representatives (Sisson and Marginson, 2000).

There is a question whether the international networks created by EWCs can be used by employee representatives for effective cross-national co-ordination as suggested by a recent study of *BMW (D)* (Whittall, 2000) or are used by management as vehicles for 'international labour regime competition', as shown by Hancké's (2000) study of EWCs in the motor industry. Two examples from this industry indicate that EWCs can play an active role in European wide bargaining. In January 2000, *Ford (US)* and its EWC signed an agreement on the employment conditions of employees following the spin-off of the Visteon components division. This guarantees all Ford employees who transfer to Visteon the terms and conditions they had at Ford for the rest of their working lives. Originally the EWC tried to negotiate a world-wide agreement with Ford. As this was rejected by management, the US United Auto Worker union and Ford concluded an agreement, which was then adapted by the EWC and regional management to the European legal framework. The EWC agreement has been implemented by national agreements and has thus become legally binding. The Visteon agreement is unique, as for the first time a EWC has been accepted as a bargaining partner. This is despite the fact that, as in all other known cases, Ford's EWC is formally a forum for information and consultation only (EIRO: DE0004254N, EWCB, 2000a).

Three months after Ford, *General Motors (US)* and its EWC reached a similar framework agreement on the effects for employees and employee representation of the

companies joint venture with FIAT (EWCB, 2000c). However, this example also suggests that there are strong links between national and European IR, as this agreement is based on a similar one concluded by General Motors' German subsidiary. As we have discussed earlier this was reached after industrial action in one of its German plants.

A final development which might have a potential impact on IR in Europe are world-wide codes of conduct. The OECD and the ILO issued sets of guidelines on responsible business conduct for MNCs some decades ago. Although these also contain prescriptions on employee relations, their observance is voluntary. On this basis some companies have developed their own codes of conduct. These are however mostly unilateral and not agreed with a trade union (EIRO: EU000920f). Therefore it is interesting to note that between 1995 and 2000 13 European MNCs have agreed world-wide codes of conduct with their EWC, national and/or international unions. These usually cover issues such as child labour, union rights, forced labour, equality, safety and pay (EWCB, 2000b). Interestingly US MNCs which account for a large proportion of all codes of conduct, are not among these. Instead French (four out of 13 agreements) and German (3) MNCs dominate.

Conclusions

If we accept, following a large body of literature, that the location of MNCs in different home business systems is likely to provide differential attitudes to IR, and indeed the nature of the employment relationship more generally, then it should hardly be surprising that such cross-national diversity is reflected in ER practices in the subsidiaries of MNCs. We have seen evidence that, in comparison with German or French firms, American MNCs in Europe tend to show relatively little enthusiasm for institutions which accord a role for collective labour. However, general conclusions here should be treated with care. The examples of *Whirlpool (US)* and *Aldi (D)*, in Ireland and Italy respectively, indicate that home business systems may provide not one, but several national mindsets among the managers of large corporations.

Meanwhile, business systems, and particularly their IR components, continue to vary extensively across the countries of the EU. National structures and contingencies exert a strong influence over outcomes. Although it might be argued that many MNCs obey the formalities of national IR systems in their foreign subsidiaries, while perhaps attempting to impose home country or global HR practices, several of the cases presented here offer strong evidence that the host country influence remains important. This is particularly the case with regard to the important issue of collective dismissals. The means by which workers in Britain came to lose their jobs in the cited cases remains, for the moment, unimaginable in, say, Germany or Spain. Similarly, it would be hard to imagine industrial action in British branches of McDonalds, whose roots, at least in France, were in a nationally specific worker response to job insecurity and flexible working hours. Similarly, in recent years MNCs in some EU countries have become less likely to conform to host country norms but rather challenge the pluralist IR traditions, which characterise many European countries. This is most apparent in regard to US MNC subsidiaries located in countries characterised by comparatively weakly regulated IR systems such as Ireland and the UK.

Several examples in our overview pointed to the adversarial impact of cross-border mergers and acquisitions on employment security. It can be assumed that we will see an increase of these cases in the future. The coming of the Economic and Monetary Union and the introduction of the Euro is likely to intensify both external and internal restructuring (Sisson and Marginson, 2000). More mergers and acquisitions, intensifying competition and higher pressures to cut costs are likely to have an adversarial impact on ER in MNCs operating in Europe.

This review article has necessarily concentrated on those elements of the operations of MNCs which have become public knowledge. Because of this, we have perhaps inevitably concentrated on the exceptional rather than the typical. Much more data is needed on the day to day questions of co-ordination within MNCs, including

differences between practices in different host countries, in order better to analyse the interaction of home and host country effects at the micro-level.

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